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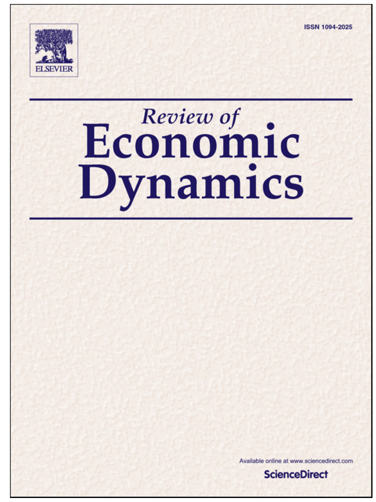

Investment Shocks, Sticky Prices, and the Endogenous Relative Price of Investment

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INVESTMENT SHOCKS, STICKY PRICES, AND THE ENDOGENOUS RELATIVE PRICE OF INVESTMENT

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Abstract. This paper estimates a two-sector DSGE model of the U.S. economy with two key ingredients: (i) an explicit distinction between shocks to investment demand and shocks to investment supply; (ii) sector-specific pricing frictions. According to the estimation results, investment demand shocks are more important than investment supply shocks in driving aggregate fluctuations. Furthermore, sticky investment prices are important to capture the effects of sector-specific technology shocks, in particular recessionary investment supply shocks. Finally, the model suggests that the relative price of investment provides a poor indicator of relative technology in short to medium horizons.

JEL Codes: C11, E30.

Keywords: investment shocks, sticky prices, relative price of investment, multisector DSGE model.

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